



October 1, 2008

Mr. Charles Terreni  
Chief Clerk/Administrator  
Public Service Commission of South Carolina  
P. O. Drawer 11649  
Columbia, South Carolina 29211

RE: Docket No. \_\_\_\_\_

Dear Mr. Terreni:

Please find enclosed for filing in the above-referenced docket Progress Energy Carolinas, Inc.'s Petition for an Accounting Order to Terminate PEC's Obligation to Accelerate the Cost Recovery of its Nuclear Generating facilities.

Sincerely,

A handwritten signature in black ink, appearing to read 'Len S. Anthony', with a large, stylized loop at the end.

Len S. Anthony  
General Counsel-Progress Energy Carolinas

LSA:mhm

Enclosure

cc: Parties of Record

267113

**BEFORE  
THE PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA**

**DOCKET NO. \_\_\_\_\_**

In Re:	)	<b>PETITION OF PROGRESS ENERGY</b>
Petition of Progress Energy	)	<b>CAROLINAS, INC. FOR AN</b>
Carolinas, Inc. for An Accounting	)	<b>ACCOUNTING ORDER TO TERMINATE</b>
Order to Terminate the Accelerated	)	<b>THE ACCELERATED COST RECOVERY</b>
Cost Recovery of Its Nuclear	)	<b>OF ITS NUCLEAR GENERATING</b>
Generating Facilities	)	<b>FACILITIES</b>

Pursuant to S.C. Code Ann. §§ 58-3-140, 58-27-140, 58-27-230, and 58-27-540 and Rules 103-820 and 103-825 of the Public Service Commission of South Carolina's ("the Commission") Rules of Practice and Procedure, Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc. ("PEC") petitions the Commission to terminate PEC's obligation to accelerate the cost recovery of its nuclear generating facilities. In support thereof, PEC shows the following:

1. The legal name and address of the petitioner is: Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc., 411 Fayetteville Street Mall, Raleigh, NC 27602. PEC is a corporation, duly organized and existing under the laws of the State of North Carolina, and authorized to do business in South Carolina. Its principal office is located at 410 South Wilmington Street, P. O. Box 1551, Raleigh, North Carolina 27602-1551. PEC is a public utility engaged in the business of developing, generating, transmitting, distributing and selling electric power in North and South Carolina.
2. The name, title, address and telephone number of the representative for PEC is:

Len S. Anthony, General Counsel  
Progress Energy Carolinas, Inc.  
P. O. Box 1551, PEB 17A4  
Raleigh, NC 27602  
(919) 546-6367

3. By Order No. 1999-75 issued in Docket No. 1999-29-E, the Commission authorized PEC to accelerate the cost recovery of its nuclear generating facilities by a minimum of \$23 million and a maximum of \$33 million annually on a South Carolina jurisdictional basis for a 5-year period, beginning January 1, 2000 and ending December 31, 2004.<sup>1</sup> The North Carolina Utilities Commission (“NCUC”) authorized PEC to accelerate a jurisdictionally comparable amount over this same time period.

4. By Order No. 2002-851 issued in Docket No. 2002-343-E, the Commission granted PEC’s request to modify Order No. 1999-75 to eliminate any annual minimum amount effective November 1, 2002 and extend the date by which PEC must achieve the overall minimum total accelerated cost recovery amount until December 31, 2009. Again, the NCUC granted PEC the same relief.

5. The reason PEC sought this modification in its accelerated cost recovery schedule was the passage of N.C. Senate Bill 1078 known as the Clean Smokestacks Act (hereinafter referred to as “CSA”) in 2001. The CSA required PEC to install environmental controls at its fossil plants to achieve significant reductions in these plants’ emissions of sulfur dioxide and oxides of nitrogen by 2009 and 2013, respectively. The CSA also required PEC to expense \$569.1 million of the cost incurred to achieve such emission reductions over the 5-year period 2003 through 2007. Both the NCUC and the Commission granted PEC relief from the obligation to accelerate the cost recovery of its

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<sup>1</sup> The total 5-year minimum amount on a South Carolina jurisdictional basis is \$115 million and the maximum amount is \$165 million.

nuclear generating facilities because PEC was concerned that it would be unable to expense the \$569.1 million, accelerate the cost recovery its nuclear generation facilities and still earn a reasonable return.

6. As explained in greater detail below, PEC has experienced and is experiencing expense increases in a number of areas. In addition, the current economic downturn and abnormally mild weather have reduced PEC's projected revenues for 2008 and 2009. As a result, PEC requests that its obligation to accelerate the cost recovery of its nuclear generating facilities be terminated. It is not possible for PEC to incur these expenses and reduced revenues, record the accelerated cost recovery and earn a reasonable return. None of the expense increases described below are capital expenditures, and all changes to revenue relate solely to base revenues.<sup>2</sup>

7. PEC is constantly evaluating the material condition of its plants and its maintenance procedures. During recent regularly scheduled inspections of PEC's Brunswick Nuclear Plant, PEC identified the need to perform unbudgeted maintenance in several areas. For example, PEC identified the need to make repairs to the intake diversion structure<sup>3</sup>, and to refurbish the emergency diesel generators and some large motors and pumps. In addition, during the summer and fall of 2007, PEC performed an assessment of the Plant's overall condition and maintenance processes and procedures. Such assessments are designed to fully maximize both operational integrity and output of the generating asset. Based upon the results of this assessment, coupled with PEC's intention to operate the plant through the life of its license and commitment to the

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<sup>2</sup> All expenses described in this petition are total system numbers. All revenues are total system retail revenues. While the wholesale off-system sales revenues are derived from wholesale sales, the revenues are credited to the retail jurisdiction.

<sup>3</sup> This is a structure designed to prevent seaweed and other foreign material from entering the plant.



continued reliable and safe operation of the Plant, in the first quarter of 2008 PEC began developing revised preventative maintenance procedures. The estimated cost to perform the refurbishments and preventative maintenance work described above is \$20 - \$25 million in 2008, \$20 - \$25 million in 2009, and \$10 - \$15 million in 2010.<sup>4</sup>

8. The Nuclear Regulatory Commission ("NRC") has amended a number of its rules since 2001. These changes have routinely resulted in emergent modifications to plant security plans and physical structures. The NRC amended Part 26 of its rules in the spring of 2008. The effective date of the new rule is October 2009. This amended rule limits the number of overtime hours that nuclear personnel who are responsible for safety-related operations and maintenance can work. This impacts a number of areas such as operations, maintenance, and security. As a result, PEC must hire a significant number of new employees. Given that these employees must be trained before they can begin work and training takes more than a year, PEC has begun to hire these new employees.<sup>5</sup> The estimated cost of hiring and training these new employees is approximately \$5M in 2008, \$15M in 2009, and up to \$20M in 2010.<sup>6</sup>

9. A final item related to increased nuclear plant operations costs is the escalating wage cost that must be incurred to retain adequate nuclear personnel. The Nuclear Regulatory Commission, General Electric Corporation and other nuclear utilities are all increasingly in competition with PEC for a finite number of qualified nuclear

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<sup>4</sup> As explained above, all of these costs are expenses, not capital expenditures. The work described herein will involve additional capital expenditures in 2008, 2009 and 2010.

<sup>5</sup> PEC must have sufficient numbers of licensed and qualified operators to run the plants and accommodate for those that are in mandatory continuing training, on vacation, or sick. Depending upon the type of operator (e.g. Auxiliary Operators, Senior Reactor Operators), it takes anywhere from 6 to 18 months of training and qualification.

<sup>6</sup> PEC does not wish to publicly state the number of new employees it must hire, as such disclosure may impact its ability to hire these employees cost effectively.

personnel. The estimated incremental cost associated with this new expense is \$3 - \$5 million in 2008 and \$5 - \$8 million in 2009.

10. PEC's fossil plants are also requiring additional maintenance in 2008 and 2009. Combustion turbines ("CTs") require refurbishment and maintenance based upon the number of times the units are started. Included in the cost of this maintenance is the cost associated with refurbishing parts that had been removed during these CT units' previous maintenance outages that will be used to replace the parts removed during the upcoming maintenance outages. Other fossil maintenance issues include: the replacement of a cracked turbine blade on the Morehead CT; the rewind of a failed generator at the Lee 3 plant; and the need to replace certain water seals on the Lee 1 turbine which prevent steam from escaping and harming the other equipment. The total cost of all these fossil maintenance/repair items is \$8 - \$10 million in 2008 and \$18 - \$29 million in 2009.

11. As PEC has begun operating its new sulfur dioxide removal equipment (the wet scrubbers), the operating costs have proven to be higher than projected. This increased expense is estimated to be \$3 - \$5 million in 2008 and \$7 - \$10 million in 2009. These increased expenses do not include the reagent costs associated with operating these facilities.

12. Contractor and materials annual price escalations in 2008 and 2009 have increased dramatically to 8%. Specialty and craft contractors' prices are escalating 8-9% annually due to competition in the construction industry which is a highly mobile trade that migrates to where pay and longevity for a project may be more competitive. Major

equipment manufacturers and suppliers have and are increasing their prices<sup>7</sup> because their cost for commodities such as steel and copper have escalated, the demand for manufacturing and forging services has increased due to global competition for equipment, and the weakening dollar. This results in increased expenses of \$15 - \$20 million in 2008 and \$30 - \$35 million in 2009. Again, all of these costs are expenses, with approximately one third being materials and two thirds being contracted labor.

13. The Federal Energy Regulatory Commission has now adopted, through the new Electric Reliability Organization (previously NERC), mandatory standards regarding maintenance of transmission rights-of-way. This requires more aggressive vegetation management and removal to ensure PEC does not experience any outages due to trees or other vegetation coming in contact with its transmission lines. In order to ensure PEC is in compliance with these new reliability standards, PEC expects to spend an additional \$8 - \$10 million in 2008 and \$10 - \$12 million in 2009.

14. PEC is a potentially responsible party with regard to the remediation of the Ward Transformer site near the Raleigh-Durham Airport. PEC learned during the second quarter of 2008 that the extent of the contamination of this site is much more pervasive than originally believed. Therefore, PEC must increase its reserve associated with the remediation costs by \$3.8 million in 2008.

15. Regarding PEC's forecasted non-fuel retail base revenues for the time period 2008 and 2009, the economic downturn has caused a decline in anticipated revenues of \$15 - \$20 million in 2008 and \$20 - \$30 million in 2009. In addition, through September 26, 2008 weather has resulted in PEC's revenues in 2008 being \$9.0

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<sup>7</sup> For instance, turbine prices have increased by up to 30% since October, and transformers are escalating at an annual rate of almost 15%.



million less than had been forecasted. Finally, again due to the economic downturn and weather, PEC's off-system sales revenues are now projected to be at least \$5 - \$7 million less than the 2007 forecast for both 2008 and 2009.

16. The net impact of these expense increases and revenue decreases is \$94.8-\$119.8 million for 2008 and \$130-\$171 million for 2009.

17. All businesses must prioritize expenditures. PEC is no different. The generation and transmission maintenance items described in this pleading are important to the ability of PEC to continue to provide reliable and safe electric service to its customers. As a result, the accelerated cost recovery of PEC's nuclear generating facilities should take a "back seat" to these other items that will support the continued reliability of PEC's assets. The impact of the downturn in the economy and mild weather upon PEC's revenues further heightens the need for PEC to prioritize its expenses. Accordingly, PEC petitions the Commission to eliminate and terminate its obligation to accelerate the cost recovery of its nuclear generating facilities.

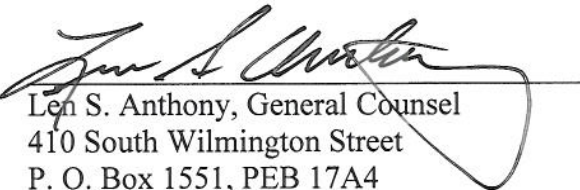
18. PEC recently petitioned the NCUC for relief from a similar accelerated cost recovery obligation for the same reasons set forth above. On July 10, 2008, PEC filed a petition with the NCUC requesting that the NCUC terminate the requirement that PEC amortize a total of \$244 million of CSA costs during the time period January 1, 2008 through December 31, 2009. On September 5, 2008, the NCUC granted PEC's request with one modification. Because PEC had already amortized a total of \$15 million of CSA costs through June 30, 2008, the NCUC found that PEC should not be allowed to reverse the recording of that amount of amortization.



WHEREFORE, PEC petitions the Commission to terminate PEC's obligation to accelerate the cost recovery of its nuclear generating facilities.

This 1st day of October, 2008.

PROGRESS ENERGY CAROLINAS, INC.



Len S. Anthony, General Counsel  
410 South Wilmington Street  
P. O. Box 1551, PEB 17A4  
Raleigh, North Carolina 27602  
Telephone: (919) 546-6367

## VERIFICATION

STATE OF NORTH CAROLINA )  
 )  
COUNTY OF WAKE )

NOW, BEFORE ME, the undersigned, personally came and appeared, Mitchell W. Perry, who first duly sworn by me, did depose and say:

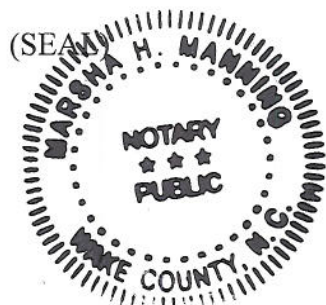
That he is Mitchell W. Perry, Vice President-Finance of Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc.; he has the authority to verify the foregoing Progress Energy Carolinas, Inc.'s Petition to Terminate the Accelerated Cost Recovery of Progress Energy Carolinas, Inc.'s Nuclear Generating Facilities, and knows the contents thereof; are true and correct to the best of his knowledge and beliefs.

11/11/11

Mitchell W. Perry  
Vice President-Finance  
Progress Energy Carolinas, Inc.

Subscribed and sworn to me  
this 1st day of October, 2008.

Marsha H. Manning  
Notary Public



My Commission Expires 10-03-2009